



Retirement Updates: 2024 Legislative Session



Dee Larsen, General Counsel

URS/PEHP Employer Event

March 12, 2024

Trust • Commitment • Value • Innovation • Excellence



Topics

- 1. General Retirement Bills that Passed**
- 2. Overview of FY 2024-25 Contribution Rate Changes**
 - a. Tier 2 Normal Cost Increases
 - b. Amortization Rate Reductions
- 3. Post-Retirement Reemployment Rules and Changes**
- 4. Upcoming Education and Communications**

1. General Retirement Bills that Passed



S.B. 34

Utah State Retirement Systems Revisions

(Sen. Harper)

- » These are administrative and technical amendments to Utah Code Title 49 recommended to the Legislature annually by URS.
- » No significant changes to participating employers' responsibilities or duties in this year's bill.

H.B. 60

Phased Retirement Extension

(Rep. Acton)

- » Repeals the schedule sunset of phased retirement as a retirement program.
- » The Phased Retirement program was enacted by the Legislature with 2016 S.B. 19.
- » The program allows for a retiree to remain with the same employer after the retiree's retirement date to work half time and receive 50% of their monthly retirement allowance (Public Safety or Firefighter Service Employees may work $\frac{3}{4}$ time and receive 25% of their retirement allowance).

2. Overview of Contribution Rate Changes

a. Tier 2 Normal Cost Increases

Pension Reform in Utah

In the aftermath of the global financial crisis, the Utah Legislature enacted major retirement reforms in the 2010 General Session:

1. Created a different benefit structure called Tier 2 for public employees hired on or after July 1, 2011; and
2. Enacted post-retirement reemployment restrictions for future retirees, including a one-year separation period between retirement and a return to work.

Legislative objectives included:

- » Cut costs and help pay down unfunded liability;
- » Capping employer liability for retirement benefits; and
- » Shared risk between employers and employees.

Key Terms

“Defined Benefit Plan” (DB)

- » Means a monthly retirement benefit payable for life after meeting eligibility requirements, e.g. a pension.

“Defined Contribution Plan” (DC)

- » Generally, a set amount is being put into a savings plan without regard for benefits payable, e.g. a 401(k).

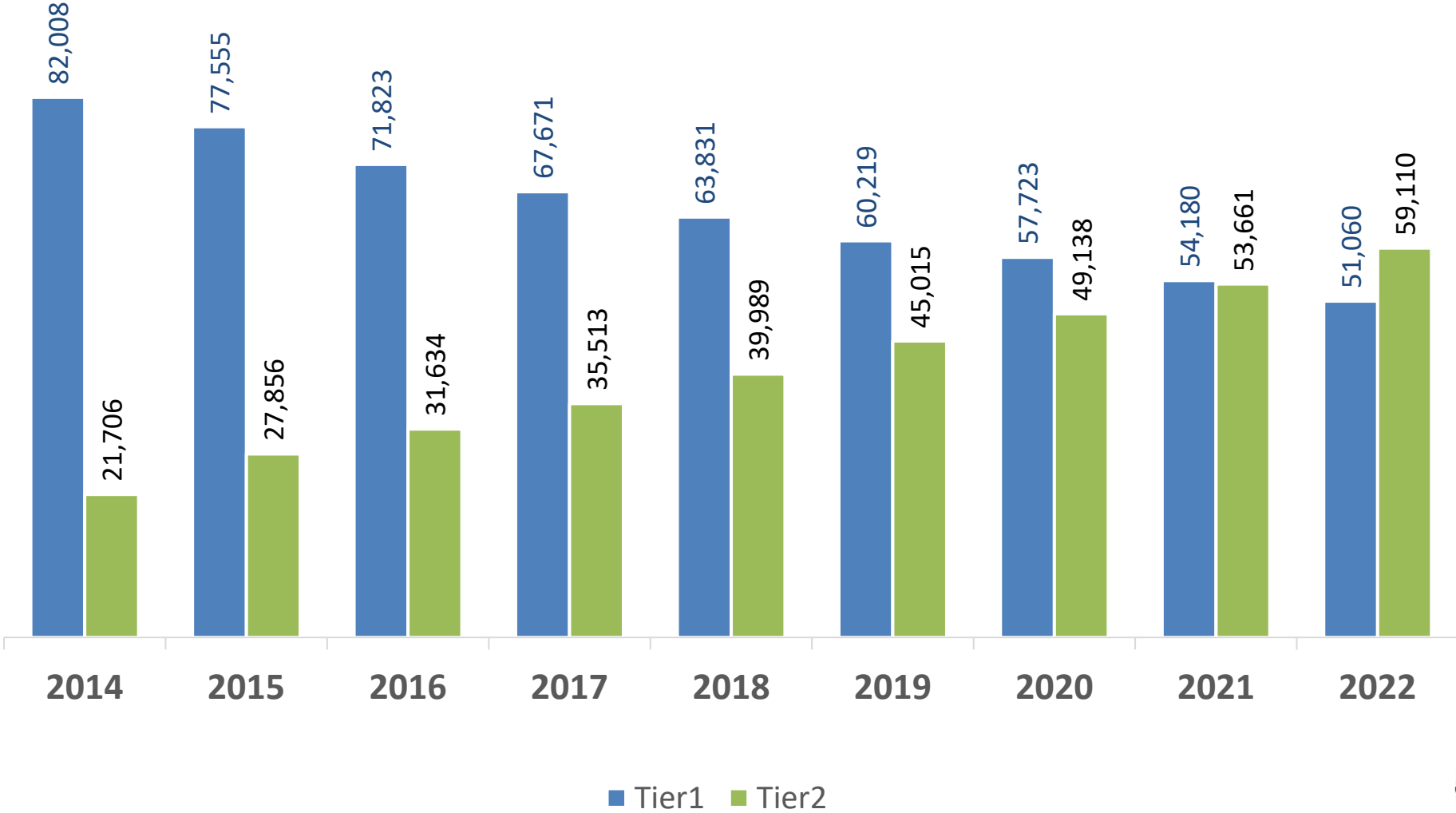
“Hybrid Plan”

- » A plan that contains elements of both Defined Benefit (DB) and Defined Contribution (DC) plans.

Tier 2 Retirement

- » Members have 1 year to make an irrevocable participation election.
- » Members choosing the Hybrid System will receive monthly pension benefits at the time of retirement; If the pension cost is less than the employer contributions (14% for PS/FF and 10% for PE), then the remainder is deposited into the employee's 401(k) account.
- » Members choosing the Defined Contribution Plan will only have the employer contributions (14% for PS/FF and 10% for PE) deposited into the employee's 401(k) account; these members will not receive a monthly pension.

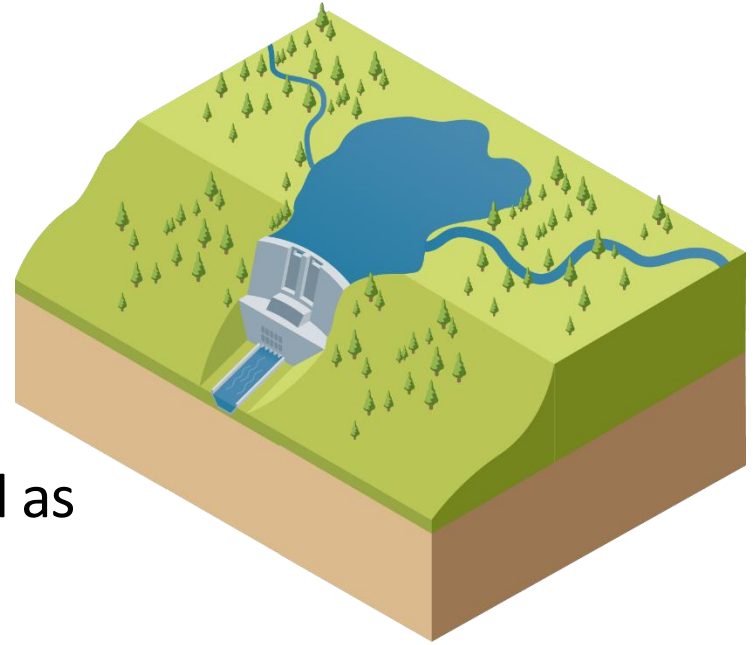
Tier 1 and Tier 2 Active Membership (at Dec. 31)



Tier 2 total active membership is nearly 54% of total active members

Contribution Rates

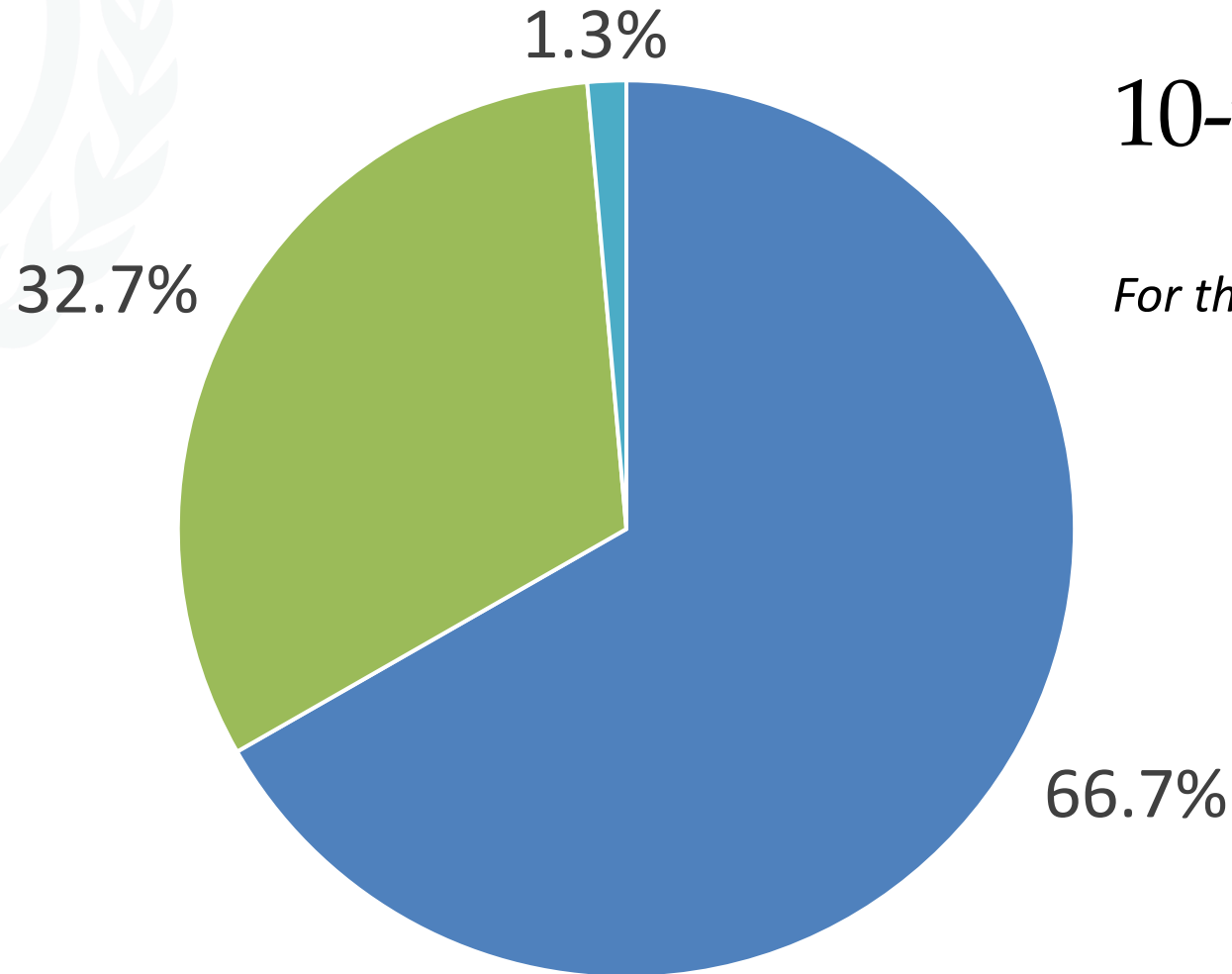
- » Most URS plans are cost-sharing, multiple-employer systems administered through a common trust fund to exclusively provide retirement benefits to Utah public employees.
- » During working years, the certified contribution rate, expressed as a percent of active members' pay is paid to URS to maintain the systems and plans on a financially and actuarially sound basis, as required by statute.
- » The Fund is invested to generate additional income and as employees retire, the Fund is used to pay the retirees' monthly retirement allowances.



DB Plan Additions by Source

10-year Average

For the period ended Dec. 31, 2022



■ Net investment income ■ Contributions ■ Fire insurance premium taxes, budget appropriations, and court fees

Contribution Rates- Components

Normal Cost

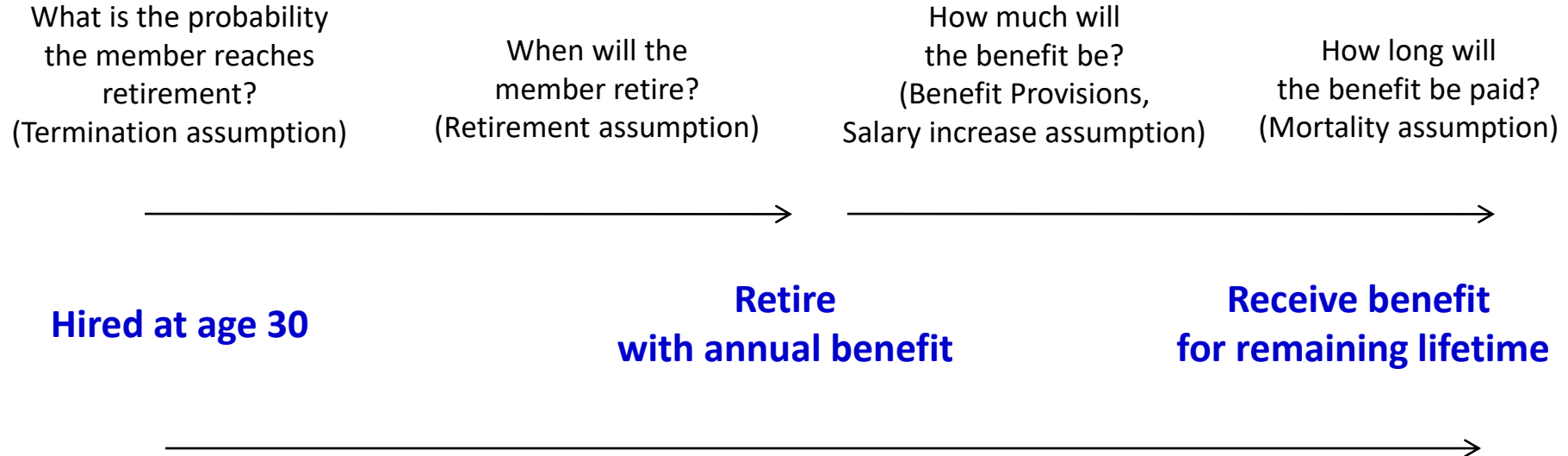
» The amount required to pay the members' benefits, based on the current plan provisions and if the fund's experience exactly followed the actuarial assumptions.

Amortization Rate

» A funding shortfall may occur, which is called an Unfunded Actuarial Accrued Liability (UAAL). UAAL can be caused by differences between actual experience and the plan's actuarial assumptions.

» Instead of requiring employers to pay their share of UAAL in full immediately, URS amortizes the liability amount so that it is paid down by contributions to URS over many years.

Actuarial Valuation – Determining the Plan Liability



What level of COLA will be paid?

What investment earnings will be available to help pay the benefits?

What overall payroll will be available to provide contributions?

Pension Actuarial Assumptions

» Key economic assumptions

- › Price inflation, Investment return

» Key demographic assumptions

- › Salary increases (for individuals), Mortality (active, post-employment, disability), Disability incidence, Retirement rate, Other terminations

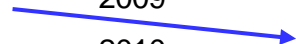
URS Actuarial Assumptions

- » Actuarial Experience studies are conducted every three years to compare recent actual economic and demographic experience against the actuarial assumptions previously adopted by the Retirement Board.
- » **FY 2024-25 actuarial assumption changes:**
 - › Economic assumptions: No changes.
 - › Demographic assumptions:
 - » Upward shift in the salary increase assumption from higher than assumed salary growth, with the main factor being unprecedented salary growth since the pandemic for public safety, firefighters, teachers, and other public employees.
 - » Minor adjustments to certain others.

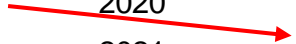
Year over Year Salary Increase

Year	State	Average Increases for Continuing Members				Firefighters
		Teachers	Local	Public Safety		
2007	7.8%	9.8%	7.1%	7.7%	6.8%	
2008	6.9%	7.4%	6.8%	7.5%	6.4%	
2009	2.9%	3.9%	3.4%	4.0%	4.0%	
2010	1.4%	1.2%	1.4%	0.8%	2.1%	
2011	2.3%	3.2%	2.7%	2.3%	2.5%	
2012	2.7%	2.5%	3.0%	2.6%	2.7%	
2013	3.0%	3.4%	3.9%	3.4%	3.4%	
2014	3.4%	3.7%	3.7%	3.9%	3.7%	
2015	4.6%	4.5%	4.6%	4.6%	4.7%	
2016	4.8%	6.0%	4.6%	5.4%	5.1%	
2017	4.6%	6.7%	4.9%	5.7%	5.4%	
2018	5.2%	7.8%	5.4%	6.1%	5.1%	
2019	5.3%	7.5%	5.8%	7.1%	6.1%	
2020	4.2%	7.7%	4.9%	5.2%	5.5%	
2021	6.0%	8.6%	6.0%	7.7%	6.1%	
2022	7.9%	7.0%	9.9%	16.4%	9.4%	
Last 10	4.9%	6.3%	5.4%	6.6%	5.5%	
Last Exp Study	3.7%	4.7%	4.0%	4.2%	4.1%	

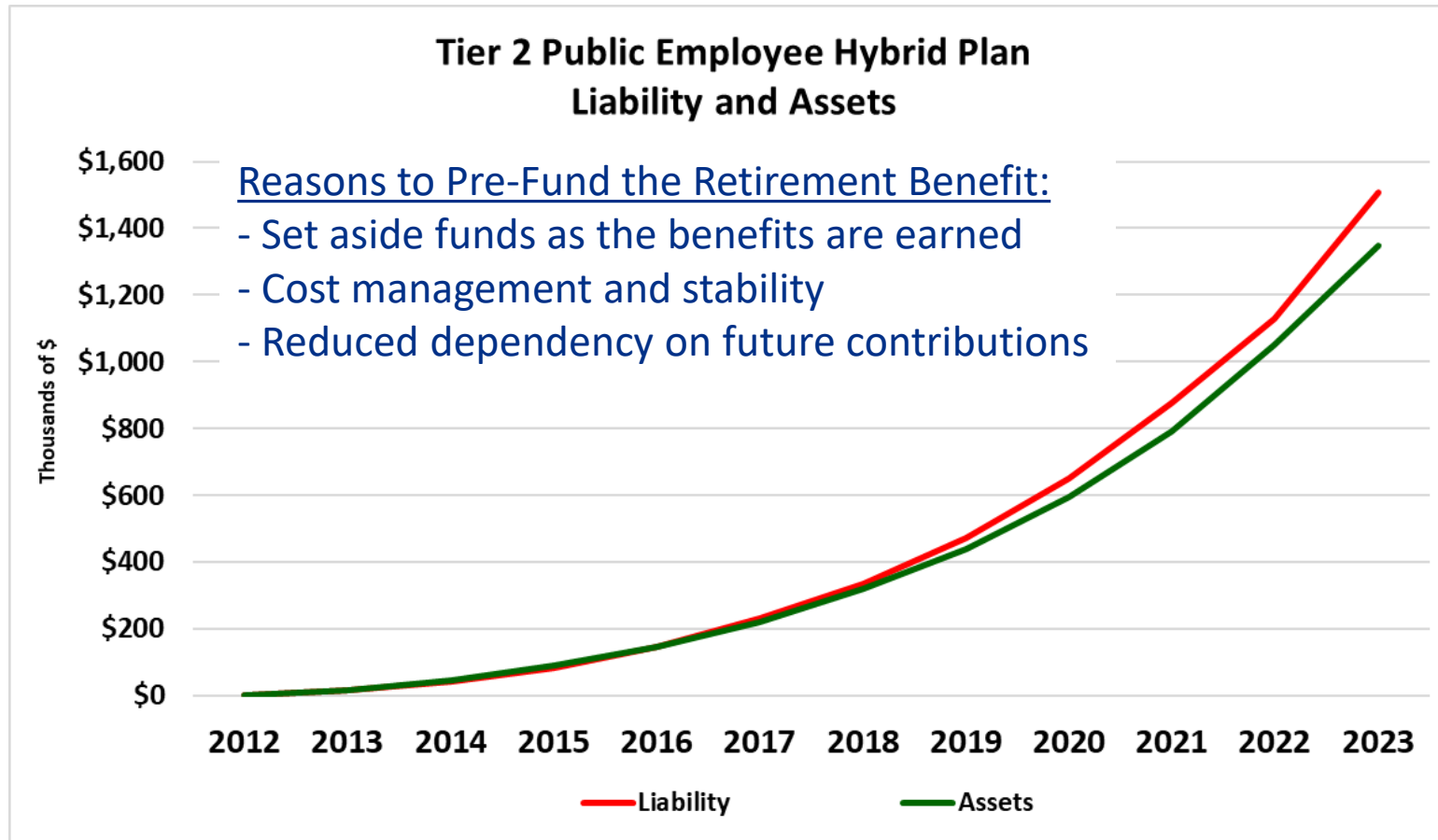
Prior Experience Study



Current Experience Study



Tier 2 Public Employee Hybrid Plan – Liability and Assets



As of January 1, 2023, the Tier 2 Public Employee Hybrid plan has:
43,100 active members
500 retired members

Tier 2 Rate Changes

Beginning July 1, 2024

	Tier 2 Public Employees	Tier 2 Public Safety/ Firefighter
Statutory employer contribution cap	10.0% (unchanged)	14.0% (unchanged)
Hybrid Plan employer contribution rate	10.0% (unchanged)	14.0% (unchanged)
Hybrid Plan <u>employee</u> contribution rate	0.70% (0.70% increase)	4.73% (2.14% increase)
Hybrid Plan employer DC required rate	0.00 (decrease 0.18%)	0.00 (unchanged)
DC Plan employer required contribution rate	10.0% (unchanged)	14.0% (unchanged)

Both Tier 2 Systems will require employee contributions

Tier 2 Public Safety/Fighter

2020 benefit enhancement legislation passed, primarily increasing the multiplier in the benefit formula :

- » Increased the costs from under 12% of pay to 16.59% of pay.
- » The employer contribution cap was increased from 12% to 14% of pay.
- » The statutory prohibition on “pick-ups” for Tier 2 PS/FF Hybrid System employees was removed.
- » Requires an employer who elects to pick-up Hybrid employee contributions to make an equal non-elective contribution to Defined Contribution Plan (401(k) only option) employees.

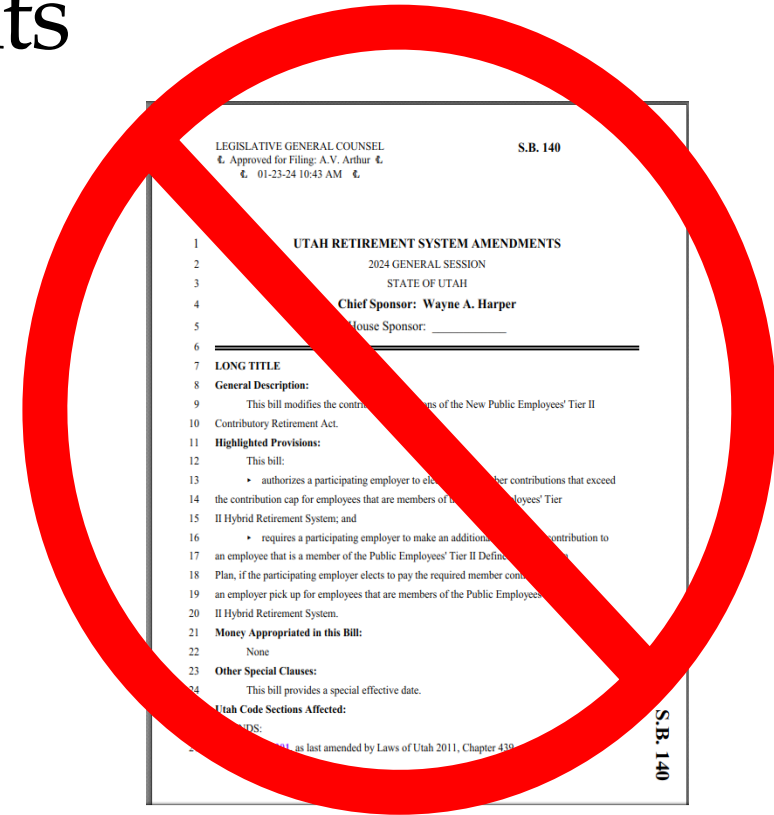
Many Tier 2 PS/FF employees, especially those on the Wasatch Front, have their current required member contributions (2.59%) picked up by their employer. There are about 150 PS/FF employers in the state.

S.B. 140

Utah Retirement System Amendments

(Sen. Harper)

- » Authorizes employers to “pick-up” employee contributions to the Tier 2 Public Employee Hybrid Plan
- » If an employer picks-up the employee contributions for members of the Hybrid Plan, they must make an equal nonelective contribution to the 401(k) for members in the Tier 2 Public Employee Defined Contribution Plan
- » **Did not pass**



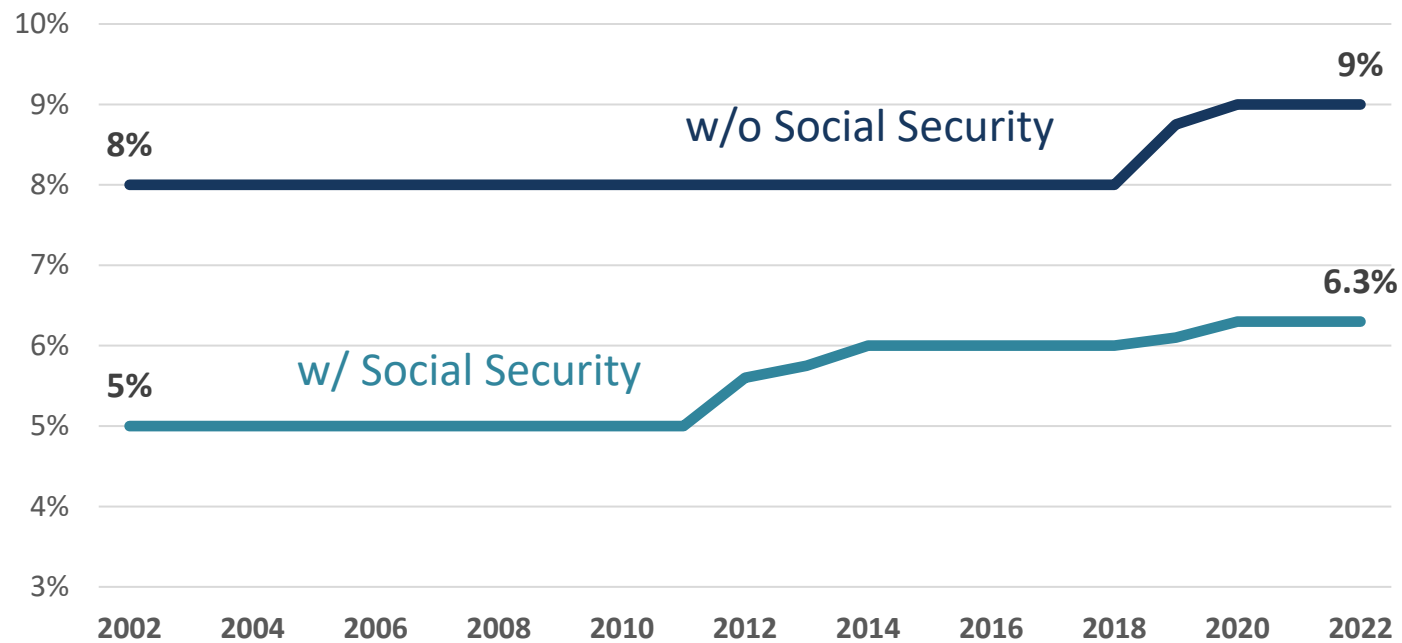
“Pick-Ups”

- » An employer election under federal tax law to formally “pick-up” and pay employees’ portion of the contribution rate
- » Tax Implications
 - › After-tax if employee pays contributions
 - › Not subject to FICA if the employer contributions are:
 - » Made as a formal, irrevocable pick-up election
 - » Must be a salary “supplement” and not a salary reduction
 - » Mandatory for all employees



Other Public Pension Plans

Median employee contribution rate by Social Security eligibility, FY 02 to FY 22 (non-public safety)



2. Overview of Contribution Rate Changes

b. Amortization Rate Reductions

Contribution Rate Management

- » The State Retirement Board and consulting actuary designed a prudent method for managing the reduction of the contribution rate in accordance with the 110% funding rule adopted by the legislature.
- » Smooths rate decreases to mitigate impact of large decreases in the future and prevent contribution rate increases after they are decreased.
- » Amortization rate decreases occur when certain factors are met, including:

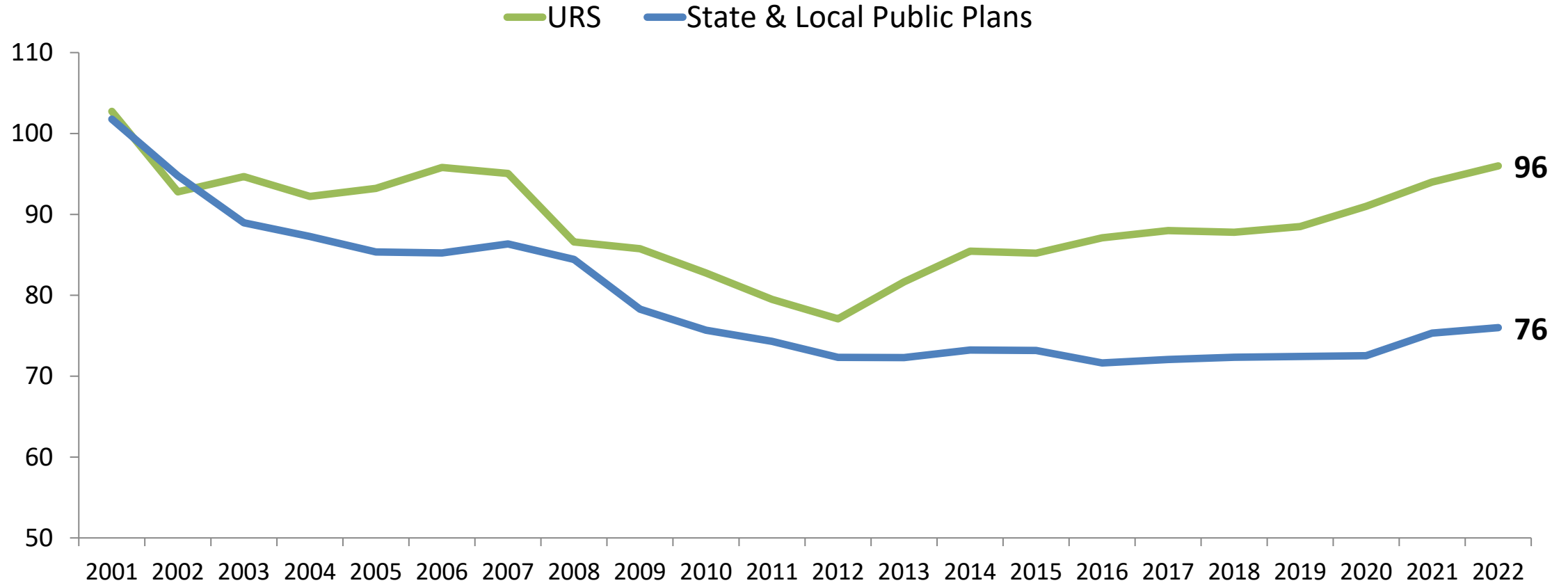
Funded Ratio Actuary Basis	Projected Years to 100% Funding	Contribution Rate Change from Prior Year Required Actuary Rate	Contribution Rate Margin Difference between Board certified rate and actuarially determined rate
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FY 2024-25 Reductions

- » As of Dec. 31, 2022, URS was 96% funded on an actuarial basis, which smooths the investment earnings over a five-year period.
- » URS uses the actuarial value to determine contribution rates.
- » Because of increasing funding levels, many Tier 1 amortization rates will decrease on July 1, 2024.
- » Tier 1 amortization rates are applied to all payroll, so the reductions for most employers are larger than the increase to the Tier 2 contribution rates, which only affect Tier 2 employees and payroll.

Actuarial Funded Ratio Smoothed (at Dec. 31, 2022)



Aggregate funded ratio of state and local public plans – *Public Plans Database*
National data averages are weighted by plan size (April 2023)



Preliminary Tier 2 FY 25 Contribution Rates

Preliminary Tier 2 Hybrid Retirement System									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	Employee	Employer	
Employee	Employer	Employer	Death	Tier I	Total Employer	Total	Increase	Increase	
Tier 2	Hybrid Plan	Hybrid Plan	Benefit*	Amortization %	Rate	Required	(Decrease)	(Decrease)	
DB Rate	DB Plan	DC Plan			Rate	Contribution	From	From	
	Rate	Rate			(2) + (3) + (4) + (5)	(1) + (6)	Prior Year	Prior Year	
Public Employees									
Contributory Retirement System									
11- Local Government ***	0.70	10.00	0.00	0.08	6.87	16.95	17.65	0.70	(1.00)
Public Employees									
Noncontributory Retirement System									
15- Local Government ***	0.70	10.00	0.00	0.08	5.11	15.19	15.89	0.70	(1.00)
16- State and School ¹	0.70	10.00	0.00	0.08	9.44	19.52	20.22	0.70	(0.50)
18- Higher Education	0.70	10.00	0.00	0.08	9.94	20.02	20.72	0.70	0.00
Public Safety									
Contributory Retirement System									
23- Other Division A (2.5% COLA)	4.73	14.00	0.00	0.08	11.27	25.35	30.08	2.14	(0.50)
Public Safety									
Noncontributory Retirement System									
42- State	4.73	14.00	0.00	0.08	17.96	32.04	36.77	2.14	(0.50)
43- Other Division A (2.5% COLA)	4.73	14.00	0.00	0.08	11.25	25.33	30.06	2.14	(0.50)
75- Other Division A (4.0% COLA)	4.73	14.00	0.00	0.08	12.41	26.49	31.22	2.14	(0.50)
44- Salt Lake City	4.73	14.00	0.00	0.08	24.20	38.28	43.01	2.14	0.00
45- Ogden	4.73	14.00	0.00	0.08	26.30	40.38	45.11	2.14	0.00
46- Provo	4.73	14.00	0.00	0.08	19.61	33.69	38.42	2.14	0.00
47- Logan	4.73	14.00	0.00	0.08	18.87	32.95	37.68	2.14	(0.50)
48- Bountiful	4.73	14.00	0.00	0.08	26.89	40.97	45.70	2.14	0.00
49- Other Division B (2.5% COLA)	4.73	14.00	0.00	0.08	9.95	24.03	28.76	2.14	0.29
76- Other Division B (4.0% COLA) ***	4.73	14.00	0.00	0.08	13.94	28.02	32.75	2.14	(1.00)
Firefighters' Retirement System									
31- Division A**	4.73	14.00	0.00	0.08	0.00	14.08	18.81	2.14	0.00
32- Division B**	4.73	14.00	0.00	0.08	0.00	14.08	18.81	2.14	0.00

Preliminary Tier 1 FY 25 Contribution Rates

	Preliminary Tier 1 2024-2025 RATES						Increase (Decrease) From Prior Year
	(1) Employee	(2) Employer	(3) Normal cost (1) + (2)	(4) Amortization of UAAL *	(5) Net Employer (2) + (4)	(6) Total (3) + (4)	
Public Employees							
Contributory Retirement System							
11- Local Government	6.00	6.09	12.09	6.87	12.96	18.96	(1.00)
12- State and School **	6.00	5.45	11.45	11.75	17.20	23.20 1	(0.50)
17- Higher Education	6.00	5.45	11.45	12.25	17.70	23.70 1	0.00
Public Employees							
Noncontributory Retirement System							
15- Local Government	-	11.86	11.86	5.11	16.97	16.97	(1.00)
16- State and School **	-	12.25	12.25	9.44	21.69	21.69 1,2	(0.50)
18- Higher Education	-	12.25	12.25	9.94	22.19	22.19 1,2	0.00
Public Safety							
Contributory Retirement System							
Division A							
23- Other Division A With 2.5% COLA	12.29	11.02	23.31	11.27	22.29	34.58	(0.50)
Public Safety							
Noncontributory Retirement System							
Division A							
42- State With 4% COLA	-	22.89	22.89	17.96	40.85	40.85 1	(0.50)
43- Other Division A With 2.5% COLA	-	22.29	22.29	11.25	33.54	33.54	(0.50)
75- Other Division A With 4% COLA	-	22.80	22.80	12.41	35.21	35.21	(0.50)
48- Bountiful With 2.5% COLA	-	23.49	23.49	26.89	50.38	50.38	0.00
Division B							
44- Salt Lake City With 2.5% COLA	-	22.51	22.51	24.20	46.71	46.71	0.00
45- Ogden With 2.5% COLA	-	22.42	22.42	26.30	48.72	48.72	0.00
46- Provo With 2.5% COLA	-	22.62	22.62	19.61	42.23	42.23	0.00
47- Logan With 2.5% COLA	-	22.60	22.60	18.87	41.47	41.47	(0.50)
49- Other Division B With 2.5% COLA	-	22.62	22.62	9.95	32.57	32.57	0.29
76- Other Division B With 4% COLA	-	23.03	23.03	13.94	36.97	36.97	(1.00)
Firefighters' Retirement System							
Division A							
Gross Rate	15.05	11.68	26.73	0.99	12.67	27.72	(2.00)
Insurance Premium Offset	0.00	(10.07)	(10.07)	(0.99)	(11.06)	(11.06)	0.00
31- Net rate	15.05	1.61	16.66	-	1.61	16.66	(2.00)
Division B							
Gross Rate	16.71	9.83	26.54	5.57	15.40	32.11	(2.00)
Insurance Premium Offset	0.00	(5.49)	(5.49)	(5.57)	(11.06)	(11.06)	0.00
32- Net rate	16.71	4.34	21.05	-	4.34	21.05	(2.00)

S.J.R 16

Joint Resolution Regarding Local Government Employee Compensation

(Sen. Fillmore)

- » In 2023 S.J.R. 5, the Legislature established that would presumptively set aside the value of the retirement amortization rate reductions for an increase in benefited state employee salaries.
- » Similarly, the Legislature now encourages local governments to consider setting aside any savings from each reduction in the amortization rate and, when the total set aside money reaches a specified threshold, include the amount in the base budget as an increase to benefited local government employee salaries.

S.B. 8 & H.B. 3

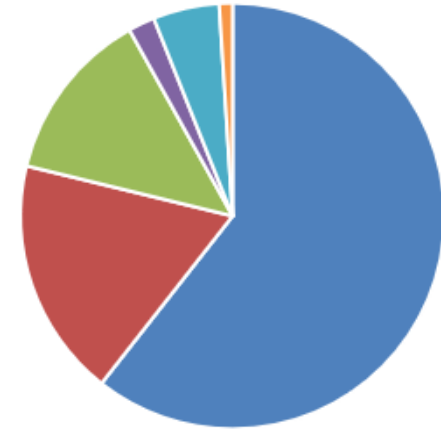
State Agency Compensation Appropriations

(Sen. Ipson & Rep. V. Peterson)

- » 3% labor market increase for state employees
- » Funding for health and dental benefit cost changes as recommended by PEHP
- » 0.70% salary enhancement for state employees who are URS Tier 2 Public Employee members
- » 2.14% salary enhancement for state employees who are URS Tier 2 Public Safety and Firefighter members

Total Compensation

- » Increasing focus on how pay and benefits fit within a competitive overall compensation and benefits package.
- » Elements may include:
 - › Base pay
 - › Required employer retirement contributions
 - › Health, dental, LTD, life, and other insurance
 - › Employer supplemental savings (e.g. additional 401(k) contributions and matches)
 - › Employer supplemental pay (e.g. State Tier 2 employee salary enhancements)
 - › Leave
 - › FICA and Medicare tax
 - › Other benefits



Total Compensation

- » Impacts and costs should be evaluated by the stakeholders, including:
 - › Policy objectives and cost-benefit analysis;
 - › Employer needs, recruiting and retention considerations, and ability to pay;
 - › Labor market comparisons; and
 - › Employee needs, considerations, and morale.

What's Next: Tier 2

- » Under state and federal law, a member's irrevocable Tier 2 participation election cannot be changed (even if employee contributions are required).
- » For Public Employee members, 0.70% will be deducted from paycheck – after tax.
- » Employer pick-up elections are still permitted for permitted for PS/FF employees but prohibited for Tier 2 Public Employees.
- » Laws and contributions could change in the future.
- » Employers should make plans for their savings from amortization rate reductions.
- » The statutory Tier 2 employer contribution caps (currently 14% of pay for PS/FF employees and 10% for other Public Employees) do not prohibit or restrict other employer elective compensation supplement options.

3. Post-Retirement Reemployment Rules and Changes

Key Term: “Working Retiree”

A retiree who returns to work for a participating employer, earning salary while continuing to receive a monthly retirement allowance URS.

This may be called:

- » Post-retirement reemployment
- » Return to work
- » Double dipping
- » Working retiree



Working Retirees

If retirees are permitted to commence their monthly retirement benefit earlier and continue to participate in the workforce:

- » Members can increase personal income
- » Employers can recruit and utilize recent retirees
- » Costs are paid from the Retirement Funds resulting in increased contribution rates for members and all employers



Working Retiree Restrictions

General Rule

- » Current Utah statutes require URS to suspend the retirement allowance for members who become reemployed with a participating employer within one year of their initial date of retirement unless the member's postretirement reemployment qualifies for one of the exceptions provided in the statutes.

Other Key Conditions

- » Bona fide termination of employment at retirement, including no pre-arrangement for future reemployment (fee-for-service relationship of any kind or character) with a participating employer
- » Don't earn additional service credit during reemployment
- » Can't receive any retirement related contribution from a participating employer during reemployment

Why a Cost?

- » The financial impact of changes to provisions is based on changes in retirement behavior.
- » More expensive to permit or encourage members to begin retirement benefits at an earlier age and continue working.
- » Monthly pension payments are paid out earlier and for a longer period.
- » Currently URS receives only a portion of the contributions on rehired retirees.
- » Contributions have less time to generate investment returns.
- » In financial terms, worse cash flow and higher present value of anticipated benefit payments

2023 Interim/2024 General Session Legislative Objectives

- » Working retiree rules should uniformly apply to all government employees
- » Do not want to incentivize early retirement
- » Allow for more flexibility
- » Help hire and potentially retain employees
- » Must be cost-neutral (no general contribution rate increases)

H.B. 251

Postretirement Reemployment Restrictions Amendments

(Rep. Gwynn)

- » Creates a new option for a retiree to return to work with a URS participating employer beginning on July 1, 2025
- » A retiree may return to work after a bona fide termination and 90-day separation
- » Employers would be required to pay full contribution rate for rehired retirees (currently only paying amortization rate)
- » Rehired retirees would receive a reduction in their allowance while reemployed (15% for Public Safety and Firefighters; 20% for Public Employees)
- » Rehired retirees would not receive annual COLA while reemployed

Retiree Return to Work Options



Cancel retirement allowance	One-year separation	Limited earnings exception	Other Narrow Exceptions	Private sector or another state	2024 H.B. 251
Earn more service credit; Enhanced benefit when re-retire if work 2 or more years	General exception; Keep monthly retirement allowance & may return to work	60-day separation; No employer provided benefits; Annual pay limit (\$19,504.61 for 2023)*	See statutes and URS publications *	Not restricted	New “user fee” option that takes effect on July 1, 2025*

*The one-year separation period begins to run after this reemployment ends

4. Upcoming Education and Communications

Responsibilities

- » Plan design, policy, and benefit specifications for the defined benefit (DB) retirement systems are established in statute by the Legislature.
- » Retirement “rules” are policy and financial decisions for the Legislature, employers, and members.
- » As the administrator, generally URS is neither for nor against current benefit provisions or proposed legislative changes in bills.
- » URS is the retirement administrator and has the responsibility to inform stakeholders about the impacts of changes to retirement rules.

Communications- Employers

- » Online resources: <https://www.urs.org/Employers/index>
- » Employer training sessions
- » Inside Story – newsletter for URS Participating Employers
- » URS Employer Line: 801-366-7318 or 800-753-7318
- » Webinars



**EMPLOYER
WEBINAR**



Understanding Member Contributions in the Tier 2 Hybrid System

» 9 a.m., Thursday, March 28, 2024



WEBINAR

The Rules for Returning to Work

Post-Retirement Reemployment

» Noon, Tuesday, August 6, 2024



Communications- Members

- » Online resources: <https://www.urs.org/Members/index>
- » Publications
- » Viewpoint – magazine for active members
- » Cycles – magazine for retired members
- » Webinars and video resources
- » Presentations
- » Individual Retirement Planning Sessions

Tier 2 employees within first year: Help make sure that they learn about their retirement plan choice!

The brochure cover features the URS Utah Retirement Systems logo at the top. Below the logo, the text reads 'Hybrid Option or 401(k) Option?' and 'Make Your Choice An Introduction to Your Retirement Benefit Options'. The cover is divided into two columns. The left column shows a woman, Jill, standing in front of a chalkboard with math equations. The right column shows a woman, Sarah, holding a tablet. Below the images are two callout boxes: 'Meet Jill' and 'Meet Sarah'. At the bottom, there is a central box with the text 'How did they make their decision? — Look inside. —' and a footer with a brief overview of the retirement systems and a link to the website for more details.

URS
Utah Retirement Systems

Hybrid Option or 401(k) Option?

Make Your Choice
An Introduction to Your Retirement Benefit Options

Meet Jill
She chose the Hybrid option — a pension and employer-paid 401(k).

These two new Utah public employees get a retirement benefit equal to 10% of their salary. Like you, they choose how to receive this benefit.

Meet Sarah
She chose the 401(k) option and will get a 10% contribution in an employer-paid 401(k).

How did they make their decision?
— Look inside. —

This brochure provides a brief overview of the Tier 2 Public Employees Hybrid Retirement System (Hybrid Option) and the Tier 2 Public Employees Defined Contribution Plan (401(k) Option).
Go to www.urs.org for more details about your benefits.



**MEMBER
WEBINAR**

Understanding Member Contributions in the Tier 2 Hybrid System

- » 10 a.m., Thursday, April 11, 2024
- » 10 a.m., Thursday, June 13, 2024



Questions?

URS is willing to discuss questions or provide additional information, whether related to this presentation or about other retirement-related issues.

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